

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

OR

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-17589

**NTS-PROPERTIES VII, LTD.**

Florida  
(State or other jurisdiction of  
incorporation or organization)

61-1119232  
(IRS Employer Identification No.)

10172 Linn Station Road, Louisville, Kentucky 40223  
(Address of Principal Executive Offices)

(502) 426-4800  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [ ] No [X]

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Some of the statements included in this Quarterly Report on Form 10-Q, particularly those included in Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), may be considered "forward-looking statements" because the statements relate to matters which have not yet occurred. For example, phrases such as "we anticipate," "believe" or "expect" indicate that it is possible that the event anticipated, believed or expected may not occur. If these events do not occur, the result which we expected also may not occur, or may occur in a different manner which may be more or less favorable to us. We do not undertake any obligation to update these forward-looking statements.

Any forward-looking statements included in MD&A, or elsewhere in this report, reflect our general partner's best judgment based on known factors, but involve risks and uncertainties. Actual results could differ materially from those anticipated in any forward-looking statements as a result of a number of factors, including but not limited to those described in our filings with the Securities and Exchange Commission, particularly our Annual Report on Form 10-K for the year ended December 31, 2002. Any forward-looking information provided by us pursuant to the safe harbor established by securities legislation should be evaluated in the context of these factors.

## PART I - FINANCIAL INFORMATION

### Item 1 - Financial Statements

#### NTS-PROPERTIES VII, LTD. BALANCE SHEETS

	As of September 30, 2003 (UNAUDITED)	As of December 31, 2002
<u>ASSETS</u>		
Cash and equivalents	\$ 307,111	\$ 382,533
Cash and equivalents - restricted	28,225	28,775
Accounts receivable	1,899	4,532
Land, buildings and amenities, net	7,192,552	7,299,579
Investment in and advances to joint venture	766,006	663,678
Other assets	60,216	53,133
<b>TOTAL ASSETS</b>	<b>\$ 8,356,009</b>	<b>\$ 8,432,230</b>
<u>LIABILITIES AND PARTNERS' EQUITY</u>		
Mortgage and notes payable	\$ 3,377,592	\$ 3,494,218
Accounts payable	118,079	48,583
Security deposits	26,625	28,775
Other liabilities	98,552	40,910
<b>TOTAL LIABILITIES</b>	<b>3,620,848</b>	<b>3,612,486</b>
COMMITMENTS AND CONTINGENCIES (Note 10)		
<b>PARTNERS' EQUITY</b>	<b>4,735,161</b>	<b>4,819,744</b>
<b>TOTAL LIABILITIES AND PARTNERS' EQUITY</b>	<b>\$ 8,356,009</b>	<b>\$ 8,432,230</b>

#### NTS-PROPERTIES VII, LTD. STATEMENT OF PARTNERS' EQUITY (UNAUDITED)

	Limited Partners	General Partner	Total
<u>PARTNERS' EQUITY/(DEFICIT)</u>			
Capital contributions, net of offering costs	\$ 10,935,700	\$ 100	\$ 10,935,800
Net loss - prior years	(2,906,131)	(29,354)	(2,935,485)
Net loss - current year	(83,737)	(846)	(84,583)
Cash distributions declared to date	(2,717,046)	(27,445)	(2,744,491)
Repurchase of limited partnership interests	(436,080)	--	(436,080)
<b>BALANCES ON SEPTEMBER 30, 2003</b>	<b>\$ 4,792,706</b>	<b>\$ (57,545)</b>	<b>\$ 4,735,161</b>

The accompanying notes to financial statements are an integral part of these statements.

**NTS-PROPERTIES VII, LTD.**  
**STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<b><u>REVENUES</u></b>				
Rental income	\$ 398,423	\$ 382,930	\$ 1,257,056	\$ 1,106,066
Interest and other income	2,258	2,414	5,150	6,402
Income from investment in joint venture	7,043	21,365	63,030	68,674
Gain on sale of assets	--	71	--	364
<b>TOTAL REVENUES</b>	<b>407,724</b>	<b>406,780</b>	<b>1,325,236</b>	<b>1,181,506</b>
<b><u>EXPENSES</u></b>				
Operating expenses	101,301	124,711	324,603	306,182
Operating expenses - affiliated	65,344	76,176	205,503	196,924
Loss on disposal of assets	--	1,587	--	2,038
Interest expense	64,556	65,391	190,925	199,797
Management fees	19,514	19,582	63,811	57,030
Real estate taxes	15,924	22,241	59,616	65,132
Professional and administrative expenses	38,244	29,576	162,066	68,058
Professional and administrative expenses - affiliated	34,757	27,438	98,193	84,545
Depreciation and amortization	102,557	125,606	305,102	375,684
<b>TOTAL EXPENSES</b>	<b>442,197</b>	<b>492,308</b>	<b>1,409,819</b>	<b>1,355,390</b>
Net loss	\$ <u>(34,473)</u>	\$ <u>(85,528)</u>	\$ <u>(84,583)</u>	\$ <u>(173,884)</u>
Net loss allocated to the limited partners	\$ <u>(34,128)</u>	\$ <u>(84,673)</u>	\$ <u>(83,737)</u>	\$ <u>(172,145)</u>
Net loss per limited partnership interest	\$ <u>(0.06)</u>	\$ <u>(0.15)</u>	\$ <u>(0.15)</u>	\$ <u>(0.31)</u>
Weighted average number of limited partnership interests	<u>552,236</u>	<u>552,236</u>	<u>552,236</u>	<u>552,236</u>

The accompanying notes to financial statements are an integral part of these statements.

**NTS-PROPERTIES VII, LTD.**  
**STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Nine Months Ended September 30,	
	2003	2002
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net loss	\$ (84,583)	\$ (173,884)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	8,580	--
Write - off of uncollectible accounts receivable	(15,088)	--
Loss on disposal of assets	--	2,038
Gain on sale of assets	--	(364)
Depreciation and amortization	307,442	378,025
Income from investment in joint venture	(63,030)	(68,674)
Changes in assets and liabilities:		
Cash and equivalents - restricted	550	(5,732)
Accounts receivable	9,141	(3,323)
Other assets	(9,424)	7,222
Accounts payable	69,496	(19,255)
Security deposits	(2,150)	5,925
Other liabilities	57,642	99,437
Net cash provided by operating activities	278,576	221,415
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Proceeds from sale of assets	--	364
Additions to land, buildings and amenities	(198,074)	(48,894)
Investment in and advances (to) from joint venture	(39,298)	4,428
Net cash used in investing activities	(237,372)	(44,102)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Principal payments on mortgage and notes payable	(116,626)	(122,884)
Net cash used in financing activities	(116,626)	(122,884)
Net (decrease) increase in cash and equivalents	(75,422)	54,429
CASH AND EQUIVALENTS, beginning of period	382,533	431,232
CASH AND EQUIVALENTS, end of period	\$ <u>307,111</u>	\$ <u>485,661</u>
Interest paid on a cash basis	\$ <u>190,329</u>	\$ <u>199,233</u>

The accompanying notes to financial statements are an integral part of these statements.

**NTS-PROPERTIES VII, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The unaudited financial statements included herein should be read in conjunction with NTS-Properties VII, Ltd.'s 2002 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 31, 2003. In the opinion of our general partner, all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation have been made to the accompanying financial statements for the three and nine months ended September 30, 2003 and 2002. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. As used in this Quarterly Report on Form 10-Q the terms "we," "us" or "our," as the context requires, may refer to NTS-Properties VII, Ltd. or its interests in its properties and joint venture.

**Note 1 - Consolidation Policy and Joint Venture Accounting**

The financial statements include the accounts of all wholly-owned properties. Intercompany transactions and balances have been eliminated. The less than 50% owned joint venture is accounted for under the equity method.

*Consolidation of Variable Interest Entities*

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities. FIN 46 provides guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, noncontrolling interests and results of operations of a VIE are to be included in an entity's consolidated financial statements. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics include the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of an entity if they occur, and the right to receive the expected residual returns of the entity if they occur.

FIN 46 was effective immediately for new entities created or acquired after February 1, 2003, and will become effective for the period ending December 31, 2003 for entities in which we had a variable interest prior to February 1, 2003. We are presently evaluating the effect of this pronouncement.

## **Note 2 - Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **Note 3 - Concentration of Credit Risk**

We own and operate, through a joint venture, one commercial rental property - Blankenbaker Business Center 1A, in Louisville, Kentucky. The sole tenant which occupies 100% of the property is a business which has operations in the Louisville area. We also own and operate two apartment communities - The Park at the Willows, in Louisville, Kentucky and Park Place Apartments Phase II, in Lexington, Kentucky.

Our financial instruments that are exposed to concentrations of credit risk consist of cash and equivalents. We maintain our cash accounts primarily with banks located in Kentucky. Cash balances are insured by the FDIC up to \$100,000 per bank account. We may at times, in certain accounts, have deposits in excess of \$100,000.

## **Note 4 - Cash and Equivalents**

Cash and equivalents include cash on hand and short-term, highly liquid investments with initial maturities of three months or less. We have a cash management program which provides for the overnight investment of excess cash balances. Under an agreement with a bank, excess cash is invested in a repurchase agreement for U.S. government or agency securities each night. As of September 30, 2003, approximately \$166,000 of our overnight investment was included in cash and equivalents.

## **Note 5 - Cash and Equivalents - Restricted**

Cash and equivalents - restricted represents funds received for residential security deposits.

## **Note 6 - Basis of Property and Depreciation**

Land, buildings and amenities are stated at historical cost, less accumulated depreciation. Costs directly associated with the acquisition, development and construction of a project are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which are 7-30 years for land improvements, 5-30 years for buildings and improvements and 5-30 years for amenities. The aggregate cost of our properties for federal tax purposes is approximately \$12,823,000.



Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” specifies circumstances in which certain long-lived assets must be reviewed for impairment. If the carrying amount of an asset exceeds the sum of its expected future cash flows, the asset’s carrying value must be written down to fair value. Application of this standard during the period ended September 30, 2003, did not result in an impairment loss.

## **Note 7 - Investment in Joint Venture**

Blankenbaker Business Center Joint Venture (the “Joint Venture”) was organized on December 28, 1990, by us and NTS-Properties Plus Ltd. to own and operate Blankenbaker Business Center 1A (“BBC 1A”) and to acquire an approximately 2.49 acre parking lot that was being leased by the business center from an affiliate of our general partner. On August 16, 1994, the Joint Venture agreement was amended to admit NTS-Properties IV to the Joint Venture.

For the three months ended September 30, 2003 and 2002, BBC 1A had total revenues of \$237,302 and \$237,406, respectively, and net income of \$22,472 and \$68,172, respectively.

For the nine months ended September 30, 2003 and 2002, BBC 1A had total revenues of \$712,031 and \$714,851, respectively, and net income of \$201,117 and \$219,126, respectively.

## **Note 8 - Mortgage and Notes Payable**

Mortgage and notes payable consist of the following:

	September 30, 2003	December 31, 2002
Mortgage payable to an insurance company in monthly installments, bearing interest at a fixed rate of 7.37%, due October 15, 2012, secured by land and buildings.	\$ 3,377,592	\$ 3,488,518
Notes payable to a bank in monthly installments, bearing interest at the Prime Rate, but not less than 6.00%, repaid in March 2003.	--	5,700
	<u>\$ 3,377,592</u>	<u>\$ 3,494,218</u>

As of September 30, 2003, the fair value of long-term debt is approximately \$3,674,000, based on the borrowing rates currently available to us for mortgages with similar terms and average maturities.

Our mortgage may be prepaid but is subject to a yield-maintenance premium.

## Note 9 - Related Party Transactions

Pursuant to an agreement with us, NTS Development Company, an affiliate of our general partner, receives property management fees on a monthly basis. The fees are paid in an amount equal to 5% of the gross revenues from our apartment communities. Also pursuant to an agreement, NTS Development Company receives a repair and maintenance fee equal to 5.9% of the costs incurred which relates to capital improvements and major repair and renovation projects. These repair and maintenance fees are capitalized as part of land, buildings and amenities.

We were charged the following amounts from NTS Development Company for the nine months ended September 30, 2003 and 2002. These charges include items which have been expensed as operating expenses - affiliated or professional and administrative expenses - affiliated and items which have been capitalized as other assets or as land, buildings and amenities.

	Nine Months Ended September 30,	
	2003	2002
Property management fees	\$ 63,811	\$ 57,030
Property management	118,249	113,469
Leasing	21,898	24,673
Administrative - operating	59,485	57,768
Other	5,871	1,014
Total operating expenses - affiliated	205,503	196,924
Professional and administrative expenses - affiliated	98,193	84,545
Repair and maintenance fees	10,982	2,235
Construction management	--	1,547
Total related party transactions capitalized	10,982	3,782
Total related party transactions	\$ 378,489	\$ 342,281

## Note 10 - Commitments and Contingencies

As an owner of real estate, we are subject to various environmental laws of federal, state and local governments. Our compliance with existing laws has not had a material adverse effect on our financial condition or results of operations. However, we cannot predict the impact of new or changed laws or regulations on our current properties or properties that we may acquire in the future.

We are jointly and severally liable under the mortgage loan agreement for the BBC 1A debt. The outstanding balance on this mortgage on September 30, 2003 is \$1,327,763. Our financial statements do not reflect a liability for this mortgage.

### *Litigation*

On December 12, 2001, three individuals filed an action in the Superior Court of the State of California for the County of Contra Costa captioned *Buchanan et al. v. NTS-Properties Associates et al.* (Case No. C 01-05090) against our general partner, the general partners of four public partnerships affiliated with us and several individuals and entities affiliated with us. The action purports to bring claims on behalf of a class of limited partners based on, among other things, tender offers made by the public partnerships and an affiliate of our general partner. The plaintiffs allege, among other things, that the prices at which limited partnership interests were purchased in these tender offers were too low. The plaintiffs are seeking monetary damages and equitable relief, including an order directing the disposition of the properties owned by the public partnerships and the distribution of the proceeds. No amounts have been accrued as a liability for this action in our financial statements. Under an indemnification agreement with our general partner, we are responsible for the costs of defending any such action.

On June 20, 2003, our general partner, along with the general partners of four public partnerships affiliated with us, reached an agreement in principle with representatives of the class of plaintiffs to settle the *Buchanan* action. This settlement is subject to, among other things, preparing and executing a settlement agreement to be presented to the court for preliminary and final approval. The proposed settlement would include releases for all of the parties for any of the claims asserted in the *Buchanan* litigation and the *Bohm* litigation described below. As part of the proposed settlement, the general partners have agreed, among other things, to pursue a merger of the partnerships along with other real estate entities affiliated with the general partners into a newly-formed entity.

On February 27, 2003, two individuals filed a class and derivative action in the Circuit Court of Jefferson County, Kentucky captioned *Bohm et al. v. J.D. Nichols et al.* (Case No. 03-CI-01740) against our general partner, the general partners of three public partnerships affiliated with us and several individuals and entities affiliated with us. On March 21, 2003, the complaint was amended to include the general partner of a public partnership affiliated with us and the general partner of a partnership that was affiliated with us but is no longer in existence. In the amended complaint, the plaintiffs purport to bring claims on behalf of a class of limited partners and derivatively on behalf of us and affiliated public partnerships based on alleged overpayments of fees, prohibited investments, improper failures to make distributions, purchases of limited partnership interests at insufficient prices and other violations of the limited partnership agreements. The plaintiffs are seeking, among other things, compensatory and punitive damages in an unspecified amount, an accounting, the appointment of a receiver or liquidating trustee, the entry of an order of dissolution against the public partnerships, a declaratory judgment, and

injunctive relief. No amounts have been accrued as a liability for this action in our financial statements. Our general partner believes that this action is without merit, and is vigorously defending it.

On October 1, 2003, in the *Bohm* litigation the judge granted the defendants' motion to extend a stay that had previously been agreed upon by the parties which expired on September 8, 2003. The stay will remain in effect only if the parties in the *Buchanan* litigation seek preliminary approval of a settlement of that litigation by November 19, 2003 and the final settlement of the *Buchanan* litigation includes releases relating to the *Bohm* litigation. If these two conditions are satisfied, the stay will become permanent when the *Buchanan* settlement is subject to a final, non-appealable order. For the nine months ended September 30, 2003, our share of the legal costs for the *Buchanan* and *Bohm* litigations was approximately \$19,000, which was included in our professional and administrative expenses.

We do not believe there is any other litigation threatened against us other than routine litigation arising out of the ordinary course of business, some of which is expected to be covered by insurance, none of which is expected to have a material effect on our financial position or results of operations, except as discussed herein.

#### *Proposed Merger*

On June 20, 2003, our general partner, along with the general partners of four public partnerships affiliated with us, reached an agreement in principle with representatives of the class of plaintiffs to settle the action captioned *Buchanan et al. v. NTS-Properties Associates et al.* (Case No. C 01-05090). The action was originally filed in the Superior Court of the State of California for the County of Contra Costa against the general partners and several affiliated individuals and entities in December 2001. The settlement is subject to, among other things, preparing and executing a settlement agreement to be presented to the court for preliminary and final approval. The proposed settlement would include releases for all of the parties for any of the claims asserted in the *Buchanan* litigation and the class action and derivative litigation filed in the Circuit Court of Jefferson County, Kentucky and captioned *Bohm et al. v. J.D. Nichols et al.* (Case No. 03-CI-01740).

As part of the proposed settlement of the *Buchanan* and *Bohm* litigation, the general partners have agreed to pursue a merger of the partnerships along with other real estate entities affiliated with the general partners into a newly-formed partnership. The general partners would seek to list the limited partnership interests to be issued in the merger on a national securities exchange. The merger will be subject to, among other things, approval by holders of a majority of the limited partner interests in each partnership, final approval of the court in which the *Buchanan* litigation is pending and receipt by the general partners of an opinion regarding the fairness of the merger to the limited partners from a financial point of view. An independent appraiser has been retained to appraise all of the properties owned by the existing partnerships and affiliated entities that would be owned after the merger by the new partnership. The appraisal will be used in

establishing exchange values which will determine the number of interests that will be issued to each existing partnership in the merger. The interests in the newly-formed partnership will be subsequently distributed to the limited and general partners in each existing partnership as though each partnership had been liquidated. The general partners have also retained a third party to provide an opinion on the fairness of the merger to limited partners from a financial point of view. For the nine months ended September 30, 2003, our share of the legal and professional fees for the proposed merger was approximately \$31,000.

#### **Note 11 - Segment Reporting**

Our reportable operating segments include only one segment - Apartment Community Operations.

## Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Financial Statements in Item 1 and the cautionary statements below.

### Critical Accounting Policies

The accompanying financial statements were prepared in conformity with accounting principles generally accepted in the United States. Application of these accounting principles requires us to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates. In preparing these financial statements, we have made our best estimates and judgments of the amounts and disclosures included in the financial statements, giving due regard to materiality.

#### *Impairment*

We review properties for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. These circumstances include, but are not limited to, declines in cash flows, occupancy and comparable sales per square foot at the property. We would be required to recognize an impairment when a property's estimated undiscounted cash flow is less than the carrying value of the property. To the extent an impairment has occurred, we charge to income the excess of the carrying value of the property over its estimated fair value. We may decide to sell properties that are held for use. The sales prices of these properties may differ from their carrying values.

### Results of Operations

The following table includes our selected summarized operating data for the three and nine months ended September 30, 2003 and 2002. This data should be read in conjunction with our financial statements, including the notes thereto, in Part I, Item 1 of this report.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Total revenues	\$ 407,724	\$ 406,780	\$ 1,325,236	\$ 1,181,506
Operating expenses and operating expenses - affiliated	166,645	200,887	530,106	503,106
Interest expense	64,556	65,391	190,925	199,797
Depreciation and amortization	102,557	125,606	305,102	375,684
Net loss	(34,473)	(85,528)	(84,583)	(173,884)

Rental and other income generated by our properties and joint venture for the three and nine months ended September 30, 2003 and 2002 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<u>Wholly-Owned Properties</u>				
The Park at the Willows	\$ 67,820	\$ 74,569	\$ 230,381	\$ 225,226
Park Place Apartments Phase II	\$ 331,208	\$ 309,909	\$ 1,028,160	\$ 884,290
<u>Joint Venture Property</u>				
<u>(Ownership % on September 30, 2003)</u>				
Blankenbaker Business Center 1A (31.34%)	\$ 237,302	\$ 237,406	\$ 712,031	\$ 714,851

The occupancy levels at our properties and joint venture as of September 30, 2003 and 2002 were as follows:

	2003	2002
<u>Wholly-Owned Properties</u>		
The Park at the Willows	79%	94%
Park Place Apartments Phase II	89%	86%
<u>Joint Venture Property</u>		
<u>(Ownership % on September 30, 2003)</u>		
Blankenbaker Business Center 1A (31.34%)	100%	100%

The average occupancy levels at our properties and joint venture for the three and nine months ended September 30, 2003 and 2002 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<u>Wholly-Owned Properties</u>				
The Park at the Willows	76%	85%	83%	79%
Park Place Apartments Phase II	88%	85%	91%	80%
<u>Joint Venture Property</u>				
<u>(Ownership % on September 30, 2003)</u>				
Blankenbaker Business Center 1A (31.34%)	100%	100%	100%	100%

We are making efforts to improve occupancy at our apartment communities. We have an on-site leasing staff, who are employees of NTS Development Company, at each of the apartment communities. The staff handles all on-site visits from potential tenants, coordinates local advertising with NTS Development Company's marketing staff, makes visits to local companies to promote fully furnished apartments and works with current residents on lease renewals.

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the three and nine months ending September 30, 2002 and 2003.

#### *Rental Income*

Rental income increased approximately \$151,000, or 14%, for the nine months ended September 30, 2003, as compared to the same period in 2002. The increase is primarily due to an increase in average occupancy at Park Place Apartments Phase II and The Park at the Willows.

#### *Income from Investment in Joint Venture*

Income from investment in joint venture decreased approximately \$14,000, or 67%, for the three months ended September 30, 2003, as compared to the same period in 2002. The decrease is a result of decreased income at Blankenbaker Business Center 1A primarily the result of a loss on disposal of assets. The loss on disposal of assets can be attributed to the retirement of the roof which was not fully depreciated. The overall decrease is partially offset by decreased interest expense at Blankenbaker Business Center 1A, due to the decreased debt level.

#### *Operating Expenses*

Operating expenses decreased approximately \$23,000, or 19%, for the three months ended September 30, 2003, as compared to the same period in 2002. The decrease is primarily the result of decreased repairs and maintenance costs and advertising costs at Park Place Apartments Phase II.

#### *Operating Expenses - Affiliated*

Operating expenses - affiliated decreased \$11,000, or 14%, for the three months ended September 30, 2003, as compared to the same period in 2002. The decrease is primarily due to decreased leasing salaries and housekeeping salaries at Park Place Apartments Phase II. Operating expenses - affiliated are expenses incurred for services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include property management, leasing, maintenance, security and other services necessary to manage and operate our business.

#### *Professional and Administrative Expenses*

Professional and administrative expense increased approximately \$9,000 and \$94,000 for the three and nine months ended September 30, 2003, respectively as compared to the same periods in 2002. The increase is primarily the result of increased legal and professional fees related to our proposed merger and litigation filed by limited partners. See the following discussion under the caption "Proposed Merger," and Part II, Item 1 of this Form 10-Q.



### *Professional and Administrative Expenses – Affiliated*

Professional and administrative expenses – affiliated increased approximately \$14,000, or 16% for the nine months ended September 30, 2003, as compared to the same period in 2002. The increase is primarily the result of increased personnel costs for property management accounting. Professional and administrative expenses – affiliated are expenses incurred for services performed by employees of NTS Development Company, an affiliate of the General Partner.

### *Depreciation and Amortization*

Depreciation and amortization decreased approximately \$23,000, or 18%, and \$71,000, or 19%, for the three and nine months ended September 30, 2003, respectively, as compared to the same periods in 2002. The decrease is primarily the result of the roof assets at Park Place Apartments Phase II becoming fully depreciated by December 31, 2002.

### **Liquidity and Capital Resources**

The following table sets forth the cash provided by or used in operating activities, investing activities and financing activities for the nine months ended September 30, 2003 and 2002.

Cash flows provided by (used in):

	Nine Months Ended September 30,	
	2003	2002
Operating activities	\$ 278,576	\$ 221,415
Investing activities	(237,372)	(44,102)
Financing activities	(116,626)	(122,884)
Net (decrease) increase in cash and equivalents	\$ <u>(75,422)</u>	\$ <u>54,429</u>

### *Cash Flows*

Net cash provided by operating activities increased approximately \$57,000, or 26%, for the nine months ended September 30, 2003, as compared to the same period in 2002. The increase is primarily driven by the change in accounts payable which was partially offset by the change in other liabilities.

The increase of approximately \$193,000 in net cash used in investing activities for the nine months ended September 30, 2003, as compared to the same period in 2002, is mainly the result of increased capital expenditures for Park Place Apartments Phase II for roof replacements, and increased investments in the Blankenbaker Business Center Joint Venture.

Due to the fact that no distributions were made during the nine months ended September 30, 2003 or 2002, the table which presents that portion of the distributions that represents a return of capital in accordance with accounting principles generally accepted in the United States has been omitted.

### *Future Liquidity*

We believe the current occupancy levels are considered adequate to fund the operations of our properties. However, our future liquidity depends significantly on our properties' occupancy remaining at a level which provides for debt payments and adequate working capital, currently and in the future. If occupancy were to fall below that level and remain at or below that level for a significant period of time, our ability to make payments due under our debt agreements and to continue paying daily operational costs would be greatly impaired. In addition, we may be required to obtain financing in connection with the capital improvements and leasing costs described below.

The primary source of future liquidity is expected to be derived from cash generated by our properties after adequate cash reserves are established for future leasing, roof replacement and renovation costs. It is anticipated that the future cash flows from operations combined with our current cash reserves will be sufficient to meet these needs. Cash reserves (which are unrestricted cash and equivalents as shown on our balance sheet) were \$307,111 on September 30, 2003.

We are aware that the sole commercial tenant of our joint venture's commercial building is making efforts to seek alternatives to renewing its expiring lease. The failure of this tenant to renew its lease would result in a loss of annual rental revenue and operating expense recoveries of approximately \$938,000. Income from our investment in the joint venture that owns this property would decrease accordingly. This would significantly affect our liquidity, and could result in significant costs to refurbish the vacated space and locate a new tenant. At this time, we are not certain whether the tenant intends to renew its lease as allowed by the lease agreement, or vacate its space.

The demand on future liquidity is anticipated to increase as a result of the replacement of the roofs at Park Place Apartments Phase II (18 buildings), all of which were installed using shingles produced by a single manufacturer. The shingles appear to contain defects which may cause the roofs to fail. As the shingle manufacturer has declared bankruptcy, we do not expect to be able to recover any of the costs of the roof replacements in the event of any such failures. We do not have sufficient working capital to make all of the roof replacements at one time. As of September 30, 2003, 15 roof replacements have been completed. The total cost of replacing the remaining roofs is estimated to be \$60,000 (\$20,000 per building). The three remaining roof replacements have been budgeted for 2004.

We anticipate using cash provided by operations and cash reserves to fund a portion of the capital improvements and leasing costs described above. However, we believe that funding these expenses may also require existing financing or additional financing secured by our properties and there is no assurance that this financing will be available.

We have no other material commitments for renovations or capital expenditures as of September 30, 2003.

### **Proposed Merger**

On June 20, 2003, our general partner, along with the general partners of four public partnerships affiliated with us, reached an agreement in principle with representatives of the class of plaintiffs to settle the action captioned *Buchanan et al. v. NTS-Properties Associates et al.* (Case No. C 01-05090). The action was originally filed in the Superior Court of the State of California for the County of Contra Costa against the general partners and several affiliated individuals and entities in December 2001. The settlement is subject to, among other things, preparing and executing a settlement agreement to be presented to the court for preliminary and final approval. The proposed settlement would include releases for all of the parties for any of the claims asserted in the *Buchanan* litigation and the class action and derivative litigation filed in the Circuit Court of Jefferson County, Kentucky and captioned *Bohm et al. v. J.D. Nichols et al.* (Case No. 03-CI-01740).

As part of the proposed settlement, the general partners have agreed to pursue a merger of the partnerships along with other real estate entities affiliated with the general partners into a newly-formed partnership. The general partners would seek to list the limited partnership interests to be issued in the merger on a national securities exchange. The merger will be subject to, among other things, approval by holders of a majority of the limited partner interests in each partnership, final approval of the court in which the *Buchanan* litigation is pending and receipt by the general partners of an opinion regarding the fairness of the merger to the limited partners from a financial point of view. An independent appraiser has been retained to appraise all of the properties owned by the existing partnerships and affiliated entities that would be owned after the merger by the new partnership. The appraisal will be used in establishing exchange values which will determine the number of interests that will be issued to each existing partnership in the merger. The interests in the newly-formed partnership will be subsequently distributed to the limited and general partners in each existing partnership as though each partnership had been liquidated. The general partners have also retained a third party to provide an opinion on the fairness of the merger to limited partners from a financial point of view. For the nine months ended September 30, 2003, our share of the legal and professional fees for the proposed merger was approximately \$31,000.

## **Website Information**

Our website address is [www.ntsdevelopment.com](http://www.ntsdevelopment.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act are available and may be accessed free of charge through the “About NTS” section of our website as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. Our website and the information contained therein or connected thereto are not incorporated into this Quarterly Report on Form 10-Q.

## **Item 3 - Quantitative and Qualitative Disclosures About Market Risk**

Our primary market risk exposure with regard to financial instruments stems from changes in interest rates. Our mortgage payable bears interest at a fixed rate. A hypothetical 100 basis point increase in interest rates would result in an approximate \$187,000 decrease in the fair value of debt.

## **Item 4 - Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer of NTS Capital Corporation, the general partner of our general partner, have concluded, based on their evaluation as of September 30, 2003, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

## PART II - OTHER INFORMATION

### Item 1 - Legal Proceedings

On October 1, 2003, in the litigation against our general partner, the general partners of four public partnerships affiliated with us and several individuals and entities affiliated with us captioned *Bohm et al. v. J.D. Nichols et al.* (Case No. 03-CI-01740) that is pending in the Circuit Court of Jefferson County, Kentucky, the judge granted the defendants' motion to extend a stay that had previously been agreed upon by the parties which expired on September 8, 2003. The stay will remain in effect only if the parties in the litigation captioned *Buchanan et al. v. NTS-Properties Associates et al.* (Case No. C 01-05090), filed against our general partner, the general partners of four public partnerships affiliated with us and several individuals and entities affiliated with us that is pending in the Superior Court of the State of California, seek preliminary approval of a settlement of that litigation by November 19, 2003 and the final settlement of the *Buchanan* litigation includes releases relating to the *Bohm* litigation. If these two conditions are satisfied, the stay will become permanent when the *Buchanan* settlement is subject to a final, non-appealable order.

**Items 2 through 5 are omitted because these items are inapplicable or the answers to the items are negative.**

### Item 6 - Exhibits and Reports on Form 8-K

#### (a) Exhibits

- (3) Amended and Restated Agreement and Certificate of Limited Partnership of NTS-Properties VII, Ltd., a Florida limited partnership. \*
- (31.1) Certification of Chief Executive Officer Pursuant to SEC Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*\*
- (31.2) Certification of Chief Financial Officer Pursuant to SEC Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*\*
- (32.1) Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*
- (32.2) Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*

#### (b) Reports on Form 8-K

None.

\* *Incorporated by reference to documents filed with the Securities and Exchange Commission in connection with the filing of the Registration Statements on Form S-11 on May 15, 1987 (effective October 29, 1987) under Commission File No. 33-14308.*

\*\* *Attached as an exhibit to this Quarterly Report on Form 10-Q.*

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NTS-PROPERTIES VII, LTD.

BY: NTS-Properties Associates VII,  
General Partner,  
BY: NTS Capital Corporation,  
General Partner

/s/ Brian F. Lavin

Brian F. Lavin

President of NTS Capital Corporation

/s/ Gregory A. Wells

Gregory A. Wells

Chief Financial Officer of NTS Capital Corporation

Date: November 13, 2003

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
3	Amended and Restated Agreement and Certificate of Limited Partnership of NTS-Properties VII, Ltd., a Florida limited partnership. *
31.1	Certification of Chief Executive Officer Pursuant to SEC Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
31.2	Certification of Chief Financial Officer Pursuant to SEC Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **

\* *Incorporated by reference to documents filed with the Securities and Exchange Commission in connection with the filing of the Registration Statements on Form S-11 on May 15, 1987 (effective October 29, 1987) under Commission File No. 33-14308.*

\*\* *Attached as an exhibit to this Quarterly Report on Form 10-Q.*

**CERTIFICATION**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Brian F. Lavin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NTS-Properties VII, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

/s/ Brian F. Lavin

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President of NTS Capital Corporation,  
General Partner of NTS-Properties Associates VII,  
General Partner of NTS-Properties VII, Ltd.



**CERTIFICATION**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gregory A. Wells, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NTS-Properties VII, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

/s/ Gregory A. Wells

Chief Financial Officer of NTS Capital Corporation,  
General Partner of NTS-Properties Associates VII,  
General Partner of NTS-Properties VII, Ltd.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Brian F. Lavin, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

To the best of my knowledge and belief, the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 13, 2003, by NTS-Properties VII, Ltd. (the “Periodic Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of NTS-Properties VII, Ltd.

A signed original of this written statement required by Section 906 has been provided to NTS-Properties VII, Ltd. and will be retained by NTS-Properties VII, Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Brian F. Lavin

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President of NTS Capital Corporation,  
General Partner of NTS-Properties Associates VII,  
General Partner of NTS-Properties VII, Ltd.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Gregory A. Wells, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

To the best of my knowledge and belief, the quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 13, 2003, by NTS-Properties VII, Ltd. (the “Periodic Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of NTS-Properties VII, Ltd.

A signed original of this written statement required by Section 906 has been provided to NTS-Properties VII, Ltd. and will be retained by NTS-Properties VII, Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Gregory A. Wells  
Chief Financial Officer of NTS Capital Corporation,  
General Partner of NTS-Properties Associates VII,  
General Partner of NTS-Properties VII, Ltd.